



2004-05 Governor's Budget

Highlights

Department of Health Services

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DEPARTMENT PROGRAM OVERVIEW

The Public and Environmental Health programs provide services addressing the prevention and control of chronic diseases including various cancers, cardiovascular diseases, diabetes, and other conditions; the investigation, prevention and control of infectious disease; the prevention and control of environmental and occupational diseases; the assessment, prevention, and interruption of the transmission of HIV and provide for the needs of HIV-infected Californians. In addition, the programs provide financial support and professional consultation and assistance to local health systems; protect the public from consuming unsafe drinking water; regulate the generation, handling, and disposal of medical waste; oversee the disposal of low-level radioactive wastes; and protect and manage food, drug, medical device and radiation sources.

The Health Care Services Program provides services to ensure low-income Californians have access to appropriate health care. Medi-Cal provides health care services to qualified persons and families, including low-income families eligible for the program (public assistance), the aged, blind and disabled, children in families with low-incomes or in foster care, and pregnant women. Licensing and Certification regulates the quality of care in public and private health facilities, clinics and agencies, and licenses Certified Nurse Assistants, Home Health Aides, and other direct care staff. The Laboratory Science Division licenses and inspects laboratory facilities and licenses laboratory personnel. County Health Services disburses and monitors funds to counties for hospital, physician, and related health services. Primary Care and Family Health administers programs that ensure access to comprehensive and coordinated family-centered, community-based, preventive and primary care services to low-income women, infants, children, and families.

GENERAL BUDGET OVERVIEW

The Department of Health Services' (DHS) budget supports activities and services that reinforce the State's commitment to protecting and improving the health of all Californians. DHS administers a broad range of public health programs and the California Medical Assistance Program (Medi-Cal). For fiscal year 2004-05, the Governor's Budget provides a total of \$34.3 billion for the support of DHS programs and services. Of this amount, \$910.5 million is for state operations and \$33.3 billion is for local assistance. This represents a total increase over the revised current year budget of 5.3%. Although the overall budget has increased, this is not due to significant programmatic expansions. The net increase from the revised 2003-04 budget of \$1.72 billion is primarily attributable to two significant augmentations associated with one-time savings realized in the current year. Specifically, the change in accrual to cash budgeting for the Medi-Cal Program and relief through the enhanced Federal Medical Assistance Percentage (FMAP) will end this fiscal year. The loss of enhanced Medi-Cal federal matching funds is a major component of the 17% increase in General Fund over the current year to a budget of \$12.2 billion. Federal funds also increased by 2.0% to \$19.5 billion. Special funds, including reimbursements, decreased by 15.3% from \$3.0 billion to \$2.5 billion. Details regarding these augmentations are provided later in this document.



DHS Budget by Fund Source *			
Governor's Budget Fund Source	2002-2003 Actual	2003-2004 Estimated	2004-2005 Proposed
General Fund	\$ 11,232,353	\$ 10,407,430	\$ 12,200,656
Federal Funds	\$ 18,972,732	\$ 19,141,250	\$ 19,527,815
Special Funds & Reimbursements	\$ 2,267,534	\$ 2,988,838	\$ 2,531,048
Total Funds	\$ 32,472,619	\$ 32,537,518	\$ 34,259,519

*Dollars in thousands

State Operations

Expenditures for state operations increased by 2.3%, or \$20.5 million, to \$910.5 million from \$890.0 million. The General Fund is budgeted at \$243.0 million, an increase of \$7.29 million over current year, and represents 26.7% of DHS' state operations expenditures. Federal funds are budgeted at \$450.7 million, an increase of \$22.4 million over current year, and represents 49.5% of DHS' state operations expenditures. Special funds, including reimbursements, decreased by \$9.0 million from \$225.9 million to \$216.9 million, and represents 23.8% of total state operations expenditures.

State Operations by Program *			
Governor's Budget Program	2002-2003 Actual	2003-2004 Estimated	2004-2005 Proposed
Public & Environmental Health (10)	\$ 306,287	\$ 306,420	\$ 313,394
Medical Care Services (20.10)	\$ 256,204	\$ 318,076	\$ 329,139
Licensing & Certification (20.20)	\$ 109,259	\$ 112,219	\$ 114,754
County Health Services (20.30)	\$ 5,749	\$ 4,487	\$ 3,999
Primary Care & Family Health (20.40)	\$ 136,399	\$ 145,256	\$ 145,743
Department Administration (30)	\$ 1,227	\$ 3,433	\$ 3,498
Total State Operations	\$ 815,125	\$ 889,891	\$ 910,527

*Dollars in thousands

State Operations by Fund Source *			
State Operations by Fund Source	2002-2003 Actual	2003-2004 Estimated	2004-2005 Proposed
General Fund	\$ 256,730	\$ 235,666	\$ 242,951
Federal Funds	\$ 342,215	\$ 428,298	\$ 450,686
Special Funds & Reimbursements	\$ 216,180	\$ 225,927	\$ 216,890
Total State Operations	\$ 815,125	\$ 889,891	\$ 910,527

*Dollars in thousands



Authorized personnel years increased from 5,385.8 in 2003-04 to 5,505.1 proposed for the 2004-05 fiscal year, or about 2.2%. The net increase in position authority results from the expiration of limited-term positions and new positions proposed for increases in workload.

Authorized Personnel Years by Program				
Governor's Budget	Program	2002-2003 Actual	2003-2004 Estimated	2004-2005 Proposed
Health Information & Strategic Planning	10.10 & 20.30	233.9	221.1	227.2
Prevention Services	10.20 & 10.30	1,041.6	988.6	995.7
Medical Care Services	20.10	1,839.1	2,016.2	2,069.2
Licensing & Certification	20.20	825.7	818.8	845.9
Primary Care & Family Health	20.40	591.8	568.5	576.9
Administration	30	805.4	772.6	790.2
Total Authorized Positions		5,337.5	5,385.8	5,505.1

Local Assistance

The local assistance budget of \$33.3 billion accounts for 97.3% of DHS' total estimated expenditures for FY 2004-05. This represents a net increase of \$1.70 billion, or 5.4% over FY 2003-04. Funding for local assistance includes an increase of \$1.8 billion (17.6%) in General Fund and \$.4 billion (1.9%) in federal funds, and a decrease of \$.4 billion (-16.2%) in special funds and reimbursements.

Local Assistance by Program*			
Governor's Budget Program	2002-2003 Actual	2003-2004 Estimated	2004-2005 Proposed
Public & Environmental Health (10)	\$ 638,631	\$ 849,802	\$ 590,738
Medical Care Services (20.10)	\$ 29,513,208	\$ 29,214,486	\$ 31,215,695
County Health Services (20.30)	\$ 83,195	\$ 52,025	\$ 47,811
Primary Care & Family Health (20.40)	\$ 1,422,453	\$ 1,531,310	\$ 1,494,744
State Mandates	\$ 7	\$ 4	\$ 4
Total	\$ 31,657,494	\$ 31,647,627	\$ 33,348,992

*Dollars in thousands



Local Assistance by Fund Source*			
Governor's Budget Fund Source	2002-2003 Actual	2003-2004 Estimated	2004-2005 Proposed
General Fund	\$ 10,975,623	\$ 10,171,764	\$ 11,957,705
Federal Fund	\$ 18,630,517	\$ 18,712,952	\$ 19,077,129
Special Funds & Reimbursements	\$ 2,051,354	\$ 2,762,911	\$ 2,314,158
Total	\$ 31,657,494	\$ 31,647,627	\$ 33,348,992

*Dollars in thousands

Budget Adjustments

MEDICAL CARE SERVICES

Medical Care Service Funding*			
Governor's Budget Program	2002-2003 Actual	2003-2004 Estimated	2004-2005 Proposed
Local Assistance	\$ 29,513,208	\$ 29,214,486	\$ 31,215,695
State Operations	\$ 256,204	\$ 318,076	\$ 329,139
State Operations as % of Local Assistance	.9%	1%	1%

*Dollars in thousands

Medi-Cal Program Reform

15.0 Positions

\$3,181,000 Total Funds

\$1,539,000 GF

\$1,642,000 FF

Given the current Medi-Cal structure, the options available to the State to control costs are primarily limited to reducing the number of people eligible for Medi-Cal, eliminating optional benefits, or reducing reimbursement to providers. With the redesign of the Medi-Cal Program, the Department of Health Services will have the flexibility necessary to ensure health care coverage for over 6.8 million Californians and minimize future reductions in program eligibility, benefits or provider rates.

The Governor's Budget proposes to develop and implement a federal 1115 Medicaid Demonstration Waiver to reform the Medi-Cal program. This waiver continues coverage of the 6.8 million people enrolled in Medi-Cal but does so in a manner that will

modernize the Medi-Cal program and be affordable to the State over the long term. It takes the State out of the cycle of continuing to have to consider total elimination of either benefits, eligibles, or major provider rate reductions due to budget shortfalls. Although this will be California's first such waiver, several



states have successfully implemented 1115 waivers for operation of their Medicaid programs.

The resources provided for the development of the Medicaid Demonstration Waiver may explore options for simplifying eligibility standards and processes, such as alignment with CALWORKS and Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs; alternative benefit packages and premium structures allowing for different levels of health care coverage for Medi-Cal eligibles; implementing a required co-payment for non-emergency services; limiting the Medi-Cal benefits to those typically provided by private health plans; expansion of mandatory enrollment of families and children in the Medi-Cal Managed Care program to additional counties that currently operate under Medi-Cal's fee-for-service (FFS) system; and encouraging the voluntary enrollment of the aged, blind and disabled (ABD) population into Medi-Cal health plans in these counties, resulting in improved access and quality of care.

DHS currently administers the Medi-Cal managed care program in 22 California counties. DHS is the largest California purchaser of managed health care services with over 3.5 million beneficiaries enrolled in contracting health plans. The expansion of managed care into additional counties could result in the transition of up to 414,000 Medi-Cal beneficiaries from the FFS delivery system to Medi-Cal managed care.

Budget savings associated with this proposal will not occur until FY 2005-06 due to the time necessary to obtain and implement the Medicaid Demonstration Waiver.

Treatment Authorization Requests Workload

36.0 Positions

\$4,035,000 Total Funds

\$1,023,000 GF

\$3,012,000 FF

This proposal will augment staffing in the Medi-Cal Operations Division (MCOD) to address a workload increase associated with a 17% annual increase in Treatment Authorization Requests (TAR) based on Calendar Year 2001 to 2002 data.

Approval of these positions will enable MCOB to adjudicate medically necessary services for Medi-Cal beneficiaries in a timelier manner. This, in turn, will reduce beneficiary and provider complaints, increase our ability to meet the mandatory 24-hour turnaround requirement for drug TARs, assist in identifying and preventing fraud and abuse, thereby reducing state General Fund expenditures for excess or inappropriate drug usage. The staff augmentation alone will not meet workload increases. However, the budget trailer bill proposes language allowing for the sampling of TARs for review.

The authority to do TAR reviews on a sample basis combined with the additional staff augmentation will allow Medi-Cal to meet the increase workload demand and insure timely processing.



Breast and Cervical Cancer Treatment Transfer to Counties

-1.0 Position

-\$41,000 Total Funds

-\$20,000 GF

-\$21,000 FF

This proposal requests approval to transfer the Breast and Cervical Cancer Treatment Program (BCCTP) eligibility determinations and re-determinations to the counties, effective January 1, 2005. The Department currently does the eligibility determinations for this program and with current staffing levels is unable to perform this process in a manner that meets federally required timeframes. One of the existing twelve positions will be eliminated on January 1, 2005, and nine positions will be retained through June 30, 2005, for the six-month transition period of the BCCTP to the counties. This will leave two permanent positions to ensure that the counties are performing BCCTP eligibility determinations and re-determinations consistent with State and Federal BCCTP program requirements.

Eliminating Sunset Date for California Partnership for Long Term Care

5.0 Positions

\$590,000 Total Funds

\$208,000 GF

\$295,000 FF

\$87,000 Other Funds

This proposal amends current statute in the Welfare and Institutions Code, Section 22003(c), to remove the January 1, 2005 sunset date for the California Partnership for Long-Term Care (the Partnership) and remove language referring to the termination of the program from Welfare and Institutions Code, Section 22009(c)(1). Additionally, the Partnership requests to convert five limited-term positions to permanent status. Implementation of this proposal will preserve the State's only program that promotes the purchase of high quality long-term care (LTC) insurance policies. LTC insurance provides a better alternative for the middle class to obtain nursing home coverage as compared to a person sheltering their assets in order to become Medi-Cal eligible for this coverage. Continuation of the LTC Partnership will help to reduce the State's funding crisis as the LTC cost burden on the General Fund escalates.

The Partnership is necessary for the continued availability of Partnership-certified LTC insurance policies designed for people with moderate income who would otherwise rely on Medi-Cal to pay their future LTC costs.



Provider Anti-Fraud: Convert Limited Term Positions to Permanent

15.0 Positions

\$1,296,000 Total Funds

\$464,000 GF

\$832,000 FF

The proposal requests the conversion of nine limited term positions in Payment Systems Division and six limited term positions in Audits and Investigations Division to permanent status to combat provider fraud and abuse in the Medi-Cal program. These positions are necessary to stay current with the re-enrollment of providers into the Medi-Cal program and to ensure deactivation of fraudulent providers by thorough pre-screening and background checks of new re-enrollment applications. These limited term positions were established by the 2002-03 Budget Act to re-enroll approximately 140,000 current providers. These permanent positions will extend the cost savings associated with the re-enrollment efforts. The deactivation of unqualified providers resulting from re-enrollment activities terminates Medi-Cal payments, with subsequent savings to the Department. If these 15 positions are not continued, it will likely result in a reduction in the number of deactivations and sanctions that can occur; and unnecessarily prolong the active billing status of undetected fraudulent providers. This proposal is expected to generate Medi-Cal savings of \$15.2 million.

DHS HIPAA Compliance Requirements

13.0 Positions

-\$296,000 Total Funds

\$389,000 GF

\$1,003,000 FF

-\$1,688,000 Other Funds

This proposal requests a three-year extension of the limited term status for thirteen (13) previously approved HIPAA positions. These positions will be used for the purpose of complying with the published final rules and changes to those rules. These positions include key leaders of the Office of HIPAA Compliance (OHC), including the Branch Chief, the Information Technology Section Chief and the Privacy/Communications Unit Chief. These positions also include staff highly experienced in local code conversions, project accounting, privacy training, privacy complaint investigations and implementation of the future and remaining rules. DHS proposes to continue to staff OHC at the current level to facilitate the implementation and maintenance of the HIPAA regulations department-wide.



Major Medi-Cal Local Assistance Budget Changes

Governor's Mid-Year Reduction Proposal

10% Provider Rate Reduction (Policy Change (PC) 127): The Governor's Mid-Year Reduction Proposal includes a 10% reduction in provider rates for Medi-Cal fee-for-service (FFS), managed care and Family PACT, proposed to be effective January 1, 2004. Some services, including hospital inpatient and outpatient, nursing facility, and federally qualified health center (FQHC) services are excluded from the reduction. Savings in 2003-04 is expected to be \$160.1 million GF, increasing by \$299.9 million GF in 2004-05 to \$460.0 million GF.

Wage Rate Adjustment for LTC (PC --): The Budget Act of 2003 included funding for a wage rate adjustment for long-term care (LTC) providers who have collective bargaining agreements or contracts that increase wages for their staff. \$46 million GF was included in 2003-04, \$21 million GF for wage increases in 2002-03 and \$25 million GF for wage increases in 2003-04. The Governor's Mid-Year Reduction Proposal eliminates this funding.

Cap on State-Only Services for Aliens: Breast and Cervical Cancer Treatment Services for Undocumented Aliens (PC 15); Non-emergency Services for Newly Qualified Aliens (PC 16); and Non-emergency Services for Undocumented Aliens (PC 17): The Governor's Mid-Year Reduction Proposal includes capping the number of persons that can be eligible for state-only services for aliens in any given month to the number that were eligible on January 1, 2004. This requires the establishment of statewide waiting lists for these programs. It is expected that the system changes needed to establish the waiting lists will be completed by July 1, 2004. Savings in 2004-05 is expected to be \$1.8 million GF for Breast and Cervical Cancer Treatment services for undocumented aliens, \$5.6 million GF for non-emergency services for newly qualified aliens and \$9.8 million GF for non-emergency services for undocumented aliens.

Other Changes

Accrual to Cash: AB 1762 (Chapter 230, Statutes of 2003), the Trailer Bill to the 2003 Budget Act, included the requirement that Medi-Cal change from an accrual to cash budgeting/accounting system, effective with the 2003-04 fiscal year. The 2003-04 Budget assumed savings of \$930 million GF for this change, which is one-time only and does not continue into FY 2004-05. Under the provisions of AB 1762, costs for 2001-02 and 2002-03 paid in 2003-04 remain in the 2001-02 and 2002-03 fiscal years on an accrual basis. This makes 2003-04 a modified cash year. In 2004-05 all costs will be budgeted on a cash basis. Based on the appropriations for 2001-02 and 2002-03 that were still to be expended at the end of the 2002-03 fiscal year, the savings in 2003-04 from shifting to cash budgeting is expected to be \$994 million. This is \$64 million more savings in 2003-04 than originally anticipated. In 2004-05, there will be increased costs of \$994 million GF due to the end of this one-time savings:



\$957.6 million GF for benefits, \$17.4 million GF for county administration and \$19.0 million GF for fiscal intermediary costs.

FMAP Changes (PC 93): The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period April 2003 through June 2004. During this period California will receive enhanced federal financial participation (FFP) in the costs of the Medi-Cal Program, 54.35% from April 2003 through September 2003, and 52.95% from October 2003 through June 2004; in July 2004 it will return to 50%. The loss of this enhanced FFP in 2004-05 results in increased GF costs of \$655.4 million GF.

5% Provider Rate Decrease (PC 126): In the Budget Act of 2003, the Legislature reduced selected Medi-Cal provider rates by 5%, effective January 1, 2004. This includes fee-for-service (FFS), Family PACT and managed care rates. Some services, including hospital inpatient and outpatient, nursing facility, and FQHC services are exempt from the reduction. Savings are estimated to be \$102.8 million GF in 2003-04 and \$236.8 million GF in 2004-05. On December 23, 2003, the U.S. District Court issued a preliminary injunction prohibiting the Department from implementing the FFS reductions. On January 8, 2004, the department filed a Motion for Reconsideration, asking the court to reconsider its decision as to all of the 5% rate cuts.

Managed Care Quality Improvement Assessment Fee (PC 56): The 2003-04 Budget assumed that the Medi-Cal managed care plans would pay a quality improvement assessment fee of 6% of their gross revenues from their Medi-Cal lines of business. This fee would be paid directly to the General Fund. The cost of the fee would be reimbursed through a Medi-Cal rate increase, which would also provide an additional rate increase of approximately 3% to the plans. The fee and rate increase were not approved at the federal level for implementation in 2003-04; therefore, there is a savings of \$112.5 million GF in the Medi-Cal budget in 2003-04. The net impact to the state General Fund is a loss of \$37.5 million. The Department is proposing to change state law to make it compatible with the requirements of federal law and to work with managed care plans to implement the fee in 2004-05. The cost to Medi-Cal is expected to be \$225.0 million GF, with a net savings to the state General Fund of \$75.0 million.

Changes to Federally Qualified Health Center (FQHC) Rates:

- Annual MEI Increase for FQHCs/RHCs (PC 77): Federal law requires that a rate increase be given each year to FQHCs and RHCs whose rates are set under the federally mandated PPS. The rate increase is based on the Medicare Economic Index (MEI) and is 3% effective October 1, 2003. The 2003-04 cost of the increase is \$5.8 million GF. The 2004-05 cost of this increase, and the impact of an additional 3% increase anticipated in October 2004, is \$16 million GF.
- FQHC Rate Adjustments (PC 80): Federal law requires that rates established for FQHCs and RHCs under the PPS be adjusted for changes in scope of service. In addition, the interim payments made to clinics must be adjusted for Medicare crossover claims and managed care actual costs. These adjustments, which have not yet been made, will be retroactive to January 1,



2001; it is expected that the retroactive payments will be made in 2004-05. Those payments, plus the ongoing costs for these adjustments, are expected to increase costs in 2004-05 by \$102.4 million GF.

- **Eliminate FQHC Alternative Rate Methodology (PC 116):** The Benefits Improvement and Protection Act (BIPA) of 2000 required the Department to implement a prospective payment system (PPS) for FQHCs and rural health clinics (RHCs). Under an alternative rate methodology, the rates were set based on the facilities' 2000 cost reports. Effective April 1, 2004, the Department proposes to eliminate the alternative rate methodology and set the base rates for the facilities based on averages from audited cost reports from 1999 and 2000. This is expected to result in savings of \$7.4 million GF in 2003-04 on an accrual basis, \$3.8 million GF on a cash basis. On a cash basis, savings will increase by 28.4 million GF in 2004-05 to \$32.3 million GF.
- Overall, the clinics will see a net increase in payment of \$14.0 million in total funds in 2003-04 and \$182.3 in total funds in 2004-05.

Improve the Pre-checkwrite Anti-Fraud Review (PC 107): The State Auditor found that the Department's pre-checkwrite process could be improved by having the Department delay provider payments to give the Department more time to review claims before checks were issued by the State Controller. The State Auditor found that the Department could make this delay and still meet all federal and state law processing time requirements. Beginning in 2004-05, Medi-Cal checkwrites will be delayed for one week, reducing the total checkwrites in the year by one and providing a one-time savings of \$143.5 million GF. The delay of the checkwrites will allow for a more thorough pre-checkwrite review of claims to identify providers with suspicious billings or patterns of billing. Further action can then be taken to suspend payments if necessary.

Pay 07/01/04 Checkwrite on 06/30/04 (PC 61): In order to maximize FFP and take advantage of the 52.95% FFP available through June 30, 2004, the checkwrite that would otherwise be paid on July 1, 2004 will be paid on June 30, 2004. Shifting this checkwrite to June increases costs in 2003-04 by \$135 million GF, but saves \$8.5 million in GF costs because of the enhanced FFP. Costs in 2004-05 will be \$143.5 million GF less than they would otherwise have been without the shift, a reduction of \$278.5 million GF from 2003-04.



Curtailing Asset Shelters (PC 14): SB 620 (Chapter 547, Statutes of 2003) placed restrictions on the marketing of annuities for the purpose of affecting Medi-Cal eligibility. To further curtail asset shelters for persons applying for Medi-Cal, the Governor's Budget Proposal includes Trailer Bill language to allow recovery of Medi-Cal costs from special needs trusts and annuities. Savings, which will grow over time, are expected to be \$.2 million GF in 2004-05.

County Cost Control (County Administration (CA) PC 16): The Department will formally implement a county cost control plan that ensures that counties have sufficient staff to complete required eligibility activities, including annual re-determinations, in the most cost effective manner. The plan will include staffing guidelines, policies to control overhead costs, and language that controls wage increases, while still maintaining the integrity of the eligibility determination process. Savings in 2004-05 is expected to be \$10 million GF.

ADHC Moratorium and Bundled Rate Adjustment (PC 34): Effective October 1, 2004, a twelve-month moratorium will be placed on the certification of new adult day health care centers (ADHCs). In addition, changes will be made to the way ADHC services are paid for to have the ADHC centers bill separately for the physical, speech and occupational therapy and transportation services they provide. Savings in 2004-05 is expected to be \$12.7 million GF Non-Institutional Provider Audits.

AUDITS & INVESTIGATIONS

Non-Institutional Provider Audits

20.0 Positions

\$1,858,000 Total Funds

\$929,000 GF

\$929,000 FF

This proposal requests the transfer of the responsibility for conducting audits of Medi-Cal non-institutional providers from the State Controller's Office (SCO) to the Department of Health Services. The efficiency and effectiveness of using SCO resources is hampered by the single state agency requirement that DHS review the audit findings and issue audit reports and demands. DHS has a multi-disciplinary staff of medical professionals and financial auditors, as well as the authority to identify abusive providers, impose administrative sanctions, and issue audits. Therefore, these actions can be performed concurrently resulting in a more efficient process and utilizing fewer resources than currently authorized by the SCO.



Non-Contract Hospital Audits

41.0 Positions

\$4,709,000 Total Funds
\$2,354,000 General Funds
\$2,355,000 Federal Funds

This proposal requests resources to augment the number of field audits of non-contract hospital cost reports, home office cost reports and related billings submitted to the Medi-Cal Program. If field visits were performed on all non-contract hospitals and field offices, the department would have the ability to determine whether non-contract hospitals are appropriately reporting costs, and whether home office costs are appropriate and allowable. It is estimated that \$7.6 million in total savings (\$3.8 million GF) would be achieved in fiscal year 2004-05 and estimated annual savings of \$30.6 million in total funds (\$15.3 million GF) would be generated thereafter.

Non-Contract Hospital 10% Interim Rate Reduction (PC 119) Mid-Year Reduction

Effective December 2003, the Department is reducing the interim rate it pays non-contract hospitals by 10%. This will result in savings of \$18.1 million GF in 2003-04 and \$31.0 million in 2004-05. The hospitals' actual costs will be reconciled in 2005-06, using audited hospital cost reports, and any necessary payments/collections will be made.

New Anti-Fraud Activities

Beneficiary Confirmations (PC 102): The Department will institute two methods of verifying that beneficiaries actually received the benefits that providers billed to Medi-Cal. The first method will be to contact a random sample of Medi-Cal beneficiaries by phone or by mail. The second method will be to contact a beneficiary in person or by mail when a review indicates the provider's billing patterns and diagnosis for the beneficiary do not appear to match. Savings in 2004-05 are expected to be \$1 million GF.

Provider Feedback Program (PC 104): In order to ensure that providers understand the amount that they have been paid by Medi-Cal, mid-year IRS 1099 forms will be sent to them at their home address. Utilization and billing profiles will also be developed and providers will be notified if their profiles are significantly different than those of their peers. These activities are expected to generate savings of \$2.5 million GF in 2004-05.

Implement Counterfeit-Proof Prescription Pads: Beginning in fiscal year 2005-06, the Department will require that all Medi-Cal prescriptions be written on prescription pads obtained from vendors approved by the State. The blanks will be uniform, non-reproducible, non-erasable and numbered. This is expected to reduce the forging and altering of prescriptions and is expected to generate annual savings of \$7 million GF to \$14 million GF beginning in fiscal year 2005-06.



PREVENTION SERVICES

AIDS Drug Assistance Program

\$8,304,000 Total Funds
-\$550,000 GF
\$8,854,000 Reimbursements

This proposal partially backfills one-time rebate augmentations included in the 2003-04 budget with \$8.3 million for the AIDS Drug Assistance Program (ADAP) in fiscal year 2004-05. This request is comprised of \$3,032,000 in on-going reimbursements (drug rebates), \$5,822,000 in one-time reimbursements (drug rebates), and a reduction in General Fund of \$550,000 associated with a cap on the ADAP caseload, proposed to be effective January 2004.

Expansion of Federally Funded Bioterrorism Preparedness Efforts

18.8 Positions

\$29,270,000 FF State Operations
\$47,239,000 FF Local Assistance

The Department of Health Services requests the limited-term positions and federal budget authority of \$76.509 million; \$29.270 million state operation; and, \$47.239 million local assistance in FY 04-05 to continue implementation of the Centers for Disease Control and Prevention (CDC) cooperative agreement and administer the expanded the Health Resources and Services Administration (HRSA) cooperative agreement for activities relating to bioterrorism preparedness and response.

The CDC cooperative agreement includes additional efforts to prepare to deploy the strategic national pharmaceutical stockpile, the smallpox vaccination program and technical support for the local Health Jurisdictions.

The HRSA cooperative agreement includes the following new workload: upgrade or maintain airborne infectious disease isolation capacity; establish a response system that allows immediate deployment of additional patient personnel that would meaningfully increase hospital patient care surge capacity; develop a system that allows the credentialing and supervision of clinicians not normally working in facilities responding to a terrorist incident; establish operational relationships among the various types of analytical laboratories within the State; and, adopt standard coding for electronic exchange of laboratory results and associated clinical observations between and among clinical laboratories of public health departments, hospitals, and other entities.



California Nutrition Network for Healthy, Active Families

\$39,732,000 Reimbursements

This proposal requests augmentation of \$39.7 million in reimbursement and local assistance expenditure authority for the social marketing campaign of the California Nutrition Network for Healthy, Active Families (Network) in the Cancer Prevention Branch. The Network is principally funded through federal funds awarded by the U.S. Department of Agriculture (USDA) to the California Department of Social Services (DSS). Through an annual interagency agreement, DSS reimburses DHS for activities identified in the USDA approved plan.

Expansion of Tissue Bank Licensure Program

1.0 Position

\$93,000 Tissue Bank License Fund

This proposal will increase spending authority of the Tissue Bank Special Fund from \$166,000 to \$259,000 to allow the program to hire an additional Examiner to conduct onsite inspections. California currently licenses 300 tissue banks that supply reproductive tissue, human milk and bone marrow from living donors, and ocular tissue, bone, veins, tendons and heart valves from deceased donors to recipients dependent on human tissue. Onsite inspections must be conducted to assure that this tissue is safely collected, processed, stored and distributed to protect living donors and patients dependent on human tissue. One additional full time position will enable the program to visit the 300 existing banks about once every three years to assure the safety of the public. Currently, the program has a 0.6 position for field inspections, and can only inspect about 30 banks annually.

PRIMARY CARE AND FAMILY HEALTH

Elimination of Community Challenge Grant Program

-7.0 Positions

-\$19,878,000 Reimbursements

The Community Challenge Grant Program (CCG) is funded through the Temporary Assistance to Needy Families (TANF) High Performance Awards Funds received as reimbursements from the Department of Social Services. TANF funding for CCG will end June 30, 2004. Therefore, this proposal reduces reimbursements by \$19.878 million (\$866,000 in state operations and \$19,012,000 in local assistance) and eliminates seven positions.



Public Health Local Assistance Estimates

The changes for the California's Children Services (CCS), Genetically Handicapped Persons Program (GHDP), and Child Health Disability Prevention (CHDP) amount to -\$40.5 million total funds (-\$42.4 million General Fund). The details for the proposed 2004-05 changes are as follows:

Program Description	Total Funds	General Fund
California's Children Services (CCS)	\$19.1 million	-\$ 0.2 million
Genetically Handicapped Persons Program (GHPP)	\$ 4.1 million	\$11.6 million
Child Health Disability Prevention (CHDP)	-\$63.7 million	-\$54.2 million
TOTAL	-\$40.5 million	-\$42.8 million

The major program changes result from the following: The \$19.1 million CCS program increase is attributable to average quarterly caseload increases of 3.6%, largely in the Healthy Families Program. Another major change to the CCS program that explains the minor total General Fund reduction is the use of \$6.3 million of Title V Maternal Child Health (MCH) funding. The GHPP funding change consists of two broad adjustments. Pending further developments with contractors and the experience in fiscal year 2002-03, the 2004-05 budget does not assume rebates. The other major adjustment is to address a projected growth in services. The decrease in CHDP is due to the success of the CHDP Gateway program in enrolling eligibles into more appropriate programs, specifically the Medi-Cal and Healthy Families programs. Details regarding the additional major changes follow:

- **Provider Rate Reductions**

As mentioned in above regarding Medi-Cal provider rate reductions, the budget assumes a 5% provider rate reduction for the CCS, GHPP, and CHDP programs for fiscal year 2003-04. The provider rate reduction for these programs increases an additional 10% in fiscal year 2004-05.

- **Enrollment Caps in Children's Medical Services Branch**

To control costs, the budget proposes to cap enrollment in the California Children's Services (CCS) program and the Genetically Handicapped Persons Program (GHPP), within the Children's Medical Services Branch. CCS ensures that low-income children with physically disabling conditions receive medical care appropriate for their CCS eligible condition. GHPP provides medical care for individuals with specific conditions such as hemophilia, cystic fibrosis, sickle cell anemia, and degenerative neurological diseases.

The CCS caseload is capped at 37,600 resulting in estimated GF savings of approximately \$120,800 in 2003-04 and \$1,895,000 in 2004-05. The GHPP will continue to serve the current caseload of 1,679 (50% are Medi-Cal eligible), resulting in GF savings in 2004-05 of \$245,000.



- **Co-Payments in Genetically Handicapped Persons Program (GHPP)**
The budget proposes to implement co-payments in the Genetically Handicapped Persons Program (GHPP) beginning in fiscal year 2004-05. The GHPP program serves persons with hemophilia, cystic fibrosis, sickle cell anemia, and other degenerative neurological diseases. General Fund costs have increased nearly 82% since fiscal year 1998-99. Over 70 percent of the increase in program expenditures is due to the higher costs of blood factor products for persons with hemophilia. By implementing co-payments, there will be a \$567,000 in GF savings from this proposal.

HEALTH INFORMATION AND STRATEGIC PLANNING

EDRS Maintenance and Operations

\$338,000 Health Statistics Special Fund

This proposal requests budget authority in the amount of \$338,000 for fiscal year 2004-05 and \$676,000 for fiscal year 2005-06 to utilize revenue from previously increased fees to support the maintenance and operations of the Electronic Death Registration System (EDRS). A Finance Letter was approved in the spring of 2003 that provided authority to expend money collected from a previous increase in disposition permit fees to develop and implement the EDRS. This authority covered fiscal year 2003-04 and the first half of fiscal year 2004-05. This proposal will authorize the expenditure of funds for maintenance and operation of the system beginning January 1, 2005.

EDRS software for the State of California has been designed, developed, and tested through a service agreement with the University of California, Davis, Health System (UCDHS). The system has been accepted by the stakeholders and is ready to be transitioned to a production environment. However, the costs for maintenance and operation must be available to ensure the system's continued operation and ongoing maintenance.

Vital Record Conversion, Signature Redaction, and Statewide Access

6.0 Positions

\$1,580,000 Health Statistics Special Fund

This proposal requests six limited term positions and increased budget authority to complete the Feasibility Study Report begun in fiscal year 2003-04, perform initial tasks to lay the foundation for implementing Senate Bill (SB) 247 (Chap. 914, Stats. 2002), and to generate the Request for Proposal (RFP) to select a contractor to accomplish the project. SB 247 mandates the Department of Health Services to develop and implement a single statewide database of imaged birth and death records, establish the capability to electronically redact signatures from the certificates,



and make the result electronically available in each County Recorder's Office and County Registrar's Office by January 1, 2006.

INFORMATION TECHNOLOGY SERVICES

Richmond Campus IT Support

\$1,250,000 Total Funds
\$424,000 GF
\$633,000 FF
\$193,000 Other Funds

This proposal requests funding for information technology infrastructure associated with the final phase (Phase III) of the Richmond Public Health Laboratory Campus. The Richmond Campus consolidates several Bay Area decentralized laboratories and offices into one laboratory and research facility. The final 800 employees are scheduled to move into the complex in 2004-05, bringing the total staff at the laboratory to approximately 1,375. The proposal includes: (1) one-time network equipment costs, (2) one-time server costs, (3) one-time installation and project management costs, and (4) ongoing data center network and support costs. The proposed costs are as follows:

<u>Description</u>	<u>FY 2004/05</u>
1) Network equipment	\$250,000
2) Servers	\$350,000
2) Installation and project management	\$302,000
3) Ongoing data center network and support	\$348,000
Total	\$1,250,000

PROPOSITION 99

Fiscal Year 2003-04

-\$4,924,000 Special Funds

For fiscal year 2003-04, DHS' Proposition 99 local assistance reductions totaled \$4,924,000 (\$3,238,000 Health Education Account and \$1,686,000 Unallocated Account) to align expenditures with available resources. Specifically, the reductions were made in the following programs:

-\$2,238,000 Tobacco Media Campaign
-\$1,000,000 Competitive Grants
-\$1,686,000 California Healthcare for Indigents Program



Plan for Fiscal Year 2004-05

-\$22,907,000 Special Funds

This proposal requests a Proposition 99 local assistance reduction of \$23,195,000 (\$11,227,000 Health Education Account, \$4,214,000 Hospital Services Account, and \$7,755,000 Unallocated Account) to align expenditures with available resources.

Specifically, this proposal requests reduction in the following programs:

- \$3,742,000 Tobacco Media Campaign
- \$3,742,000 Tobacco Competitive Grants
- \$3,742,000 Tobacco Local Lead Agencies
- \$5,900,000 California Healthcare for Indigents Program
- \$6,069,000 Breast Cancer Early Detection Program

This proposal also requests an increase of \$288,000 in support (Research Account) to fund three currently unfunded positions that provide support for the Ken Maddy California Cancer Registry.

